

# Market Comment | Bond rally continues across the board

Global Financial Markets Unit  
09 Jun 2016

- **US jobless claims fell slightly** in the week ended 3 June (264K; consensus: 270K, previous: 267K) while continuing jobless claims also dropped in the week ended 5 June in line with estimates (to 2095K; consensus: 2171K; previous: 2172K).
- **Mario Draghi warns on the EZ growth dynamic.** According to the ECB president, the EZ faces a challenging environment in view of demographic trends and their effects on growth. Draghi insisted on the need to undertake structural measures to increase productivity in a context of a diminishing workforce. He stressed the difficulties involved in supporting the recovery only by means of monetary stimulus “in a context of disrupted transmission, that has led to a slower return of output to potential than if fiscal policy had been more supportive.” The cost of delaying the implementation of measures in this way, according to Draghi is “simply too high”.
- **The larger-than-expected fall in Japanese factory orders contributed to the increase in the global risk premium** today, and despite better-than-expected US jobless claims and German exports the risk-off mood prevailed in the financial markets today. In addition, Mr. Draghi’s warning on the euro zone growth dynamic was also bleak for risk assets.
- **The bond rally continued across the board, with British gilts joining the party,** reaching a new record low. In the meantime, German yields, up to the 9Y tenor, deepened into negative territory, while the German 10Y yield seems to be consolidating levels below 0.04%, reaching (0.024%). In the same vein, Swiss and Japanese 10Y yields went further into negative territory, while the US 10Y yield also declined (-3 bps), close to the low levels of January 2015. Demand for safe-haven assets mounted amid concerns over the health of the global economy and growing uncertainty ahead of this month’s referendum on the U.K.’s membership of the European Union. Furthermore, comment from Fed member Narayana Kocherlakota suggesting that negative interest rates “can be a valuable tool”, also encouraged flows towards bond markets. Peripheral yields remained steady. Moreover, the agreement between Greece and its European creditors is progressing towards an early solution, boosting Greek bond prices. According to the Kathimerini newspaper, the Eurogroup will meet next Thursday to give the green light for the disbursement of €7.5bn in bailout funding, while the ESM board is expected to meet on 16 June for the final approval of the loan, subject to the approval by several national parliaments.
- **European corporate bonds extended their gains today,** helped by the ECB’s corporate bond purchase programme, which sent a strong signal yesterday, buying several peripheral corporate bonds. However, risk-off mood dragged energy and cyclical commodity prices, while safe-haven commodities such as gold (+0.6%) improved. The risk aversion sentiment also weighed on equity markets which declined across the board (S&P -0.4%, Euro Stoxx) -0.9%), led by the energy, financial and discretionary consumption sectors.

- **The U.S. dollar pushed higher** on Thursday against its main peers, favoured by the mild increase in risk aversion in financial markets with the exception of the JPY, also considered a safe asset (EUR: -0.56%, GBP: -0.16%, JPY: +0.45%) . The downward trend in commodity prices (copper: -2%, Brent: -0.9%) caused an EM currencies depreciation (RUB: -0.6%, BRL: -0.9%, CLP: -0.4%, COP: -0.5%, MXN: -0.8%).

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Table 1

**Current level and changes at daily, weekly, monthly and annual frequencies**

**Libor markets (changes in bps)**

US 3m 3.77 (-1.02) (0.10)  
 US 6m 3.75 (-1.02) (0.14)  
 US 12m 3.97 (-1.03) (0.40)

Japan 10y 0.55 (0.05) (0.44) (0.80)  
 3m 0.25 (-0.14) (0.64)  
 6m 0.25 (-0.14) (0.64)  
 12m 0.25 (-0.14) (0.64)

Region 10y 4.42 (-2.07) (0.11) (4.07)  
 France 10y 4.22 (-2.02) (0.11) (3.90)  
 Greece 10y 7.38 (-4.48) (0.39) (2.37)  
 Ireland 10y 3.73 (-0.15) (0.64)  
 Italy 10y 4.18 (-2.01) (0.11) (3.90)  
 Netherlands 10y 3.21 (-0.15) (0.64) (3.43)  
 Portugal 10y 3.37 (0.48) (2.38) (3.88)  
 Spain 10y 4.15 (0.48) (2.38) (3.88)

Germany 10y 4.02 (0.12) (1.11)  
 China 10y 4.54 (-2.02) (0.10) (5.50)  
 Columbia 10y 7.09 (0.11) (2.67) (7.91)  
 Mexico 10y 5.99 (-2.18) (0.18) (5.91)  
 Peru 10y 6.03 (-2.02) (0.11) (5.91)

Russia 10y 3.08 (-2.02) (0.10) (3.90)  
 Turkey 10y 5.91 (-2.02) (0.10) (5.91)  
 Russia 10y 5.73 (-2.02) (0.10) (5.73)  
 Turkey 10y 5.91 (-2.02) (0.10) (5.91)

India 10y 7.49 (0.00) (0.10)  
 Indonesia 10y 7.62 (1.28) (1.28) (2.38)

**Country risk (changes in bps)**

10y sovereign spreads (against Germany)  
 Region 40 (0) (0) (0)  
 France 36 (0) (0) (0)  
 Greece 74 (-2) (0) (0) (166)  
 Ireland 36 (0) (0) (0)  
 Italy 75 (0) (0) (0) (166)  
 Netherlands 10 (0) (0) (0) (166)  
 Portugal 36 (0) (0) (0) (166)  
 Spain 10 (0) (0) (0) (166)

5y sovereign spreads (against Germany)  
 Region 7 (0) (0) (0) (166)  
 France 5 (0) (0) (0) (166)  
 Greece 16 (-1) (0) (0) (166)  
 Ireland 7 (0) (0) (0) (166)  
 Italy 16 (0) (0) (0) (166)  
 Netherlands 1 (0) (0) (0) (166)  
 Portugal 7 (0) (0) (0) (166)  
 Spain 1 (0) (0) (0) (166)

10y sovereign spreads (against Germany)  
 Region 5 (0) (0) (0) (166)  
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**Current level and changes at daily, weekly, monthly and annual frequencies**

**Debt markets (changes in bp)**

**US Treasury**

US 2yr 6.77 (2) (2) (18)  
 US 5yr 3.21 (2) (2) (18) (44)  
 US 10yr 3.07 (2) (2) (18) (50)  
 US 30yr 4.10 (2) (2) (18) (45)

**Japan**

JP 2yr 4.74 (1) (2) (14) (44)  
 JP 5yr 4.42 (1) (1) (14) (44)  
 JP 10yr 4.04 (2) (1) (14) (41)

**Germany**

DE 2yr 4.74 (1) (2) (14) (44)  
 DE 5yr 4.42 (1) (1) (14) (44)  
 DE 10yr 4.04 (2) (1) (14) (41)

**France**

FR 2yr 4.74 (1) (2) (14) (44)  
 FR 5yr 4.42 (1) (1) (14) (44)  
 FR 10yr 4.04 (2) (1) (14) (41)

**Italy**

IT 2yr 4.74 (1) (2) (14) (44)  
 IT 5yr 4.42 (1) (1) (14) (44)  
 IT 10yr 4.04 (2) (1) (14) (41)

**Spain**

ES 2yr 4.74 (1) (2) (14) (44)  
 ES 5yr 4.42 (1) (1) (14) (44)  
 ES 10yr 4.04 (2) (1) (14) (41)

**UK**

UK 2yr 4.74 (1) (2) (14) (44)  
 UK 5yr 4.42 (1) (1) (14) (44)  
 UK 10yr 4.04 (2) (1) (14) (41)

**Emerging Markets**

Brazil 10yr 12.80 (2) (2) (12) (19)  
 Chile 10yr 5.47 (1) (2) (12) (22)  
 Colombia 10yr 5.00 (2) (2) (12) (22)  
 Mexico 10yr 5.89 (2) (2) (12) (19)

Poland 10yr 3.08 (2) (2) (12) (19)  
 Russia 10yr 8.81 (2) (2) (12) (19)  
 Turkey 10yr 8.71 (2) (2) (12) (19)  
 India 10yr 7.44 (2) (2) (12) (19)

**Country risk (change in bp)**

**US sovereign spreads (against Germany)**

Belgium 20 (2) (2) (11)  
 France 20 (2) (2) (11)  
 Germany 24 (2) (2) (11) (18)  
 Italy 10 (2) (2) (11)

Netherlands 22 (2) (2) (11)  
 Portugal 104 (2) (2) (11) (18)  
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CDS, EMBI & MSCI indices with one day delay

\*\*Credit spread (BAA) with two days delay

\*\*\*S&P GSCI with one day delay

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